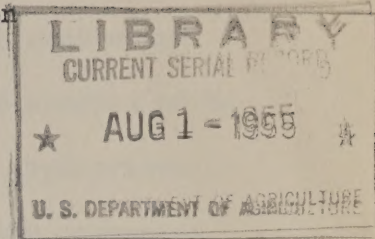


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Statement of Ancher Nelsen, Administrator  
Rural Electrification Administration  
to the Public Works Subcommittee of the  
House Committee on Appropriations, at Hearing on  
May 31, 1955



In June 1954 REA prepared "A Review of Power Problems of REA-Financed Federated Cooperatives in the SPA Area" and outlined there the objectives of REA's endeavors. Briefly stated, REA made itself available at the request of the cooperatives to assist in working out an arrangement which would enable the cooperatives to make their future power supply secure at reasonable costs. Such a solution, it was stated, should be one whereby the cooperatives would find it possible to keep the facilities that they constructed and not depend on annual appropriations by Congress for the continuing fund to support the arrangements.

As the members of the Committee know, it is now almost two years since the Congress indicated that a different approach from the 40-year-lease-purchase contracts was to be taken and first appropriated interim funds while negotiations proceeded. The "interim period" has been extended several times by the Congress; the last one being the recent deficiency appropriation of \$400,000 for SPA to permit interim arrangements to continue until July 1, 1955.





I am sure that no one two years ago visualized all of the problems that would be encountered and all of the delays that have occurred. There was a preliminary "get acquainted" period which took several months and then it was necessary for various engineering and other cost studies to be made involving the use of SPA hydro peaking power, the most appropriate methods of interconnecting the systems of the cooperatives and companies and the resultant methods of operation.

In addition, it was necessary to work out a new form of contract for the sale of hydro peaking power from SPA to the cooperatives which would be used in the integration between the cooperatives and the companies. For various reasons, including the severe drought of the summer of 1954, this last item was particularly difficult to work out. Even now the quantities of hydro involved in each contract and the cost of the hydro power still are not completely resolved. It would appear that there is not presently enough hydro peaking power available to satisfy the requirements of all the parties involved and the new rate schedules applicable to the sale by SPA of both peaking and round-the-clock power are still under study by the FPC whose approval of the rates is required prior to their taking affect.

The real question that needs to be decided at this time is whether the cooperative borrowers' long-term interests would best be served by the restoration of the continuing fund to SPA. In that connection, may I point out some of the problems that present themselves in the event that the Congress decides to act favorably upon the request to restore the continuing fund.





1. Will there be a modification in SPA's schedule A rate from that now before the FPC, the latter having been based on a marketing plan of selling predominately peaking power? The testimony you have heard by Mr. Wright and Mr. Aandahl indicates substantial problems if the inoperative contracts are restored, with the possibility that the final rate will be considerably higher than the rate now proposed. It would seem that detailed engineering studies of this matter would be required.
2. We understand that the Cooperatives propose to eliminate the operation, maintenance and purchase option features of the inoperative contracts. What will be the effect upon the resultant costs of the cooperatives? That is, will the wheeling payments under such an arrangement be less than the rental payments under the old contracts and what effect will such changes have on the cooperatives' delivered power costs? To our knowledge no discussions or studies by the cooperatives and SPA have as yet dealt with this problem.

In connection with any consideration of costs or of contract arrangements, it should be borne in mind that the company arrangements under discussion would leave the cooperative the owner of its facilities at the conclusion of the contract term as well as in possession of its facilities during the period of the contract, whereas under the original lease - purchase



contracts the government would become the owner of the cooperatives' facilities at the end of the contract term and have possession of the facilities during the contract. In making comparisons of cost, this difference must be evaluated, particularly where there is involved, as here, an investment of approximately \$70,000,000.

In testifying before the Senate Committee recently in connection with the \$400,000 deficiency appropriation, I stated "we think we should have a permanent plan that would protect the farmers of the Southwest with their power supply and make it possible for them to keep the facilities that were constructed." I am not sure whether affirmative action by the Congress on the SPA's continuing fund at this stage would result in the development of such a permanent plan, since in succeeding years, there would remain the possibility of further discussion and consideration by Congress of this question of continuing SPA's continuing fund authorization.

I know that this committee is confronted with the problem of making a difficult decision and would like to get conclusive answers from all parties concerned; however, I do not see how REA can take a more definite position until the questions raised above are resolved.

Starting in June of 1954 and from time to time thereafter, REA has prepared summaries of the status of negotiations which have been widely distributed to interested persons, including Congressional offices.







The last such summary brought matters up to January 15, 1955. We will probably prepare another such summary in the near future.

REA's function, as we have viewed it, has been to furnish at the cooperatives' request technical advice and assistance to the cooperatives, leaving the initiative in the negotiations for a permanent solution to the parties immediately concerned - the cooperatives, the companies and SPA.

We have attempted to be helpful to all parties concerned to assist in achieving a lasting solution that will permit the cooperatives to carry out their responsibilities to their consumers for service and to REA for repayment of the loans. We will continue in our efforts to assist in finding a solution to this problem.

